CANADA

Prices and incomes commission

Commission des prix et des revenus

July 21, 1970

WHOLESALE MILK PRICES

Prices and Incomes Commission

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FOREWORD

The Prices and Incomes Commission was established on June 19, 1969, "to inquire into and report upon the causes, processes and consequences of inflation and to inform those making current price and income decisions, the general public and the Government on how price stability may best be achieved".

Following numerous separate discussions with representatives of the Canadian business community, including the Canadian Chamber of Commerce, the Canadian Manufacturers' Association, the Retail Council of Canada and the Canadian Bankers' Association, the Commission decided to call a National Conference on Price Stability in order to obtain a consensus on a national policy to combat inflation. The conference, held in Ottawa on Feb. 9-10, was attended by senior officers of national business and farm associations, representatives of professional groups, leaders of the Canadian business community and officials of the federal and provincial governments. Those present indicated a willingness to exercise a meaningful degree of restraint in their pricing policies in 1970 and there was broad agreement that:

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(a) Business firms generally, if called upon to do so, would reduce the number and size of price increases they would normally make in 1970.

(b) More specifically, where higher prices are needed to cover higher costs, and market conditions make them feasible, business firms generally, if called upon to do so, would ensure that price increases were clearly less than the amount needed to cover the increases in costs at a normal volume of output and sales.

The complete list of agreed criteria is contained in the Closing Statement of the National Conference on Price Stability released on Feb. 10, 1970.

At a Federal-Provincial Conference of First Ministers, held in Ottawa on Feb. 16-17, 1970, the federal government and all provincial governments endorsed the Commission's plan to call without delay upon business firms generally to follow the basic price restraint principle adopted by the National Conference on Price Stability. First Ministers urged all Canadians to co-operate actively in restraining price and income increases during 1970.

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Provision was made at the National Conference on Price Stability for a price review procedure whereby the Prices and Incomes Commission would review price increases to determine whether they comply with the agreed criteria.

The Government of Canada and most provincial governments expressed the hope that government sanctions would not be required but agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the pricing criteria as reported by the Commission.

WHOLESALE MILK PRICES

Vancouver Area, British Columbia

The Milk Industry Background

At the present time there are four large processors in the Vancouver area and a handful of smaller facilities. The former are the Fraser Valley Milk Producers Association (F.V.M.P.A.), a co-operative owned by producers, Canada Safeway Ltd., a food chain with its own dairy, Palm Dairies Ltd., and Silverwood Industries Ltd. Together these four handle more than 95 per cent of the total milk processed in the area. Three processors F.V.M.P.A., Palm Dairies and Silverwood, increased prices. Canada Safeway did not. As a result this review deals with those producers which increased prices.

Two new processing plants are being built and they will increase the daily capacity of the major Vancouver processors to a substantial degree.

The British Columbia Milk Board's 1969 report shows the sales of milk and cream in the Vancouver area. Since 1965 the volume of these products has risen from 102,600,000 to 126,100,000 quarts, an average annual increase of about five per cent. The increase in 1969 over 1968

was lower at four per cent and the assumption has been made that the 1970 rise will again be four per cent.

Milk Processing

In general the processes involved in fluid milk manufacturing are as follows. Milk is a very perishable commodity which requires rapid processing and the supply, like that of most farm products, is seasonal.

Many milk producers in the Vancouver area have refrigerated holding tanks from which a pickup by tank truck is made every other day. The raw milk is carried to the processing plant where the quality, weight and butterfat content are recorded before temporary storage in a refrigerated raw holding tank. A daily production order determines the quantities of the various products to be made. After passing through clarifier-separators the milk goes into a variety of standardizing tanks where the butterfat content is adjusted to government standards for each product. This may require the addition of some butterfat or skim milk. Most products then have to be homogenized and all are pasteurized by a high-temperature, short-time process. They then

pass to final holding tanks and thence to the packaging lines to be filled into cartons, jugs, bulk containers, creamers and so on. From there the finished products are held in cold storage for delivery.

The manufacture of ice cream is similar except that the separation of skim milk is a byproduct which can be used in the standardization of fluid milk, or be further processed as powdered skim milk or condensed milk. The cream is put into mix-making vats where other ingredients such as condensed skim, sugar and flavors are added. Ice-cream machines are then used to complete the processing and the products are packaged and frozen, ready for delivery.

Evaporated milk and powdered milk are processed differently and, in the case of F.V.M.P.A., in different locations. Butter and cottage cheese are joint products in these operations, further complicating the identification of finished product costs.

Prices

In this industry union contracts generally expire, or contain second-year increases, on April 1 each year. They also involve the same union for

each processor, with one recent exception. Therefore it has been customery to review selling prices of milk soon after that date each year.

In 1969, following a small second-year wage increase, the wholesale and home delivery prices of milk products were increased slightly by all dairies about mid-April, 1969. The labor settlements effective April 1, 1970, however, provided for 10-per-cent increases for the three companies reviewed. For this and other reasons they increased wholesale prices by two cents per quart, three cents per half gallon and four cents for the three-quart carton of homogenized milk. The average rise for most fluid milk products was about 3.7 per cent.

At the same time home delivery prices also were raised about 4.2 per cent. Homogenized milk went up two cents per quart, seven cents per half gallon and three cents for a three-quart jug. A short time later a number of food stores increased the retail prices but within a week these retailers pulled back their prices to their 1969 level. As a result this Commission undertook a review of the wholesale and home-delivery price increases.

The Price Review

For about three months in mid-1969 many of the larger food chain stores were beset by a strike. Among them was Canada Safeway Ltd. Their customers were obliged to shop elsewhere for their milk products and other food-stuffs. The resultant sales of fluid milk in 1969, as stated already, did not suffer unduly as a result and were four per cent higher than in 1968. It meant, however, that some extra volume was handled by Silverwood's and Palm Dairies in particular which are less dependent on chain store outlets. Because of the strike,adjustments were made for normal volumes for 1969 and that year was used as the base period for all three companies reviewed.

The data submitted by these companies were studied and corrected in one instance to allow for a volume increase erroneously omitted. It was found that there is no uniform unit of production for all products. While fluid milk can be measured in quarts, other products such as cheese and powdered milk cannot. Therefore, it was decided to examine net profit as a percentage of sales. The financial data supplied are considered confidential by the companies and will not be reproduced in this report.

The ratios of net profit before tax to net sales in 1969 and 1970 were calculated for each company. The Commission found that for F.V.M.P.A. the ratio of 1.18 per cent in 1969 will fall to 0.63 per cent in 1970. At Palm Dairies, whose fiscal year ends on March 31, the 1969/70 ratio was 3.31 per cent, while 1970/71 will produce 1.78 per cent. Silverwood's margin in 1969 was 0.14 per cent and it expects its 1970 operations to produce a loss equivalent to -1.14 per cent of net sales.

There are two main factors accounting for these falling margins in 1970. The first is the projected rise in the Milk Board's authorized price for their raw milk. These prices are computed each month by a formula which weighs such factors as indices of wholesale prices, retail prices, and British Columbia wages and salaries, as well as the provincial indices of local and Alfalfa hay, dairy feed and wages of farm labor. The cost of raw milk to the processors in 1970 is forecast to rise about four per cent over 1969.

The second factor is the labor contracts agreed to this year, effective April 1, 1970. The increase for the period April 1, 1970, to March 31, 1971,

averages about 10 per cent over 1969 rates. A similar increase will be automatic on April 1, 1971, for the succeeding year.

The effect of these two cost increases alone, (and there have been others, such as power) for a full year have been calculated by one company to be about 1½ cents per quart of milk. Against this the wholesale price increase in April, 1970, will produce only just over one cent per quart in revenue at the same company. This was found to be representative of cost and revenue changes for the other companies and accounts for the declining profit margins.

Conclusion

In the opinion of this Commission these companies have remained within the criteria agreed to in February, 1970.